

**Statement of
The Honorable Gordon England, Deputy Secretary of Defense Gordon England
And the Honorable Tina W. Jonas, Under Secretary of Defense (Comptroller)
Before the House Budget Committee
18 January 2007**

Chairman Spratt, Representative Ryan, Members of the House Budget Committee,

Good afternoon. I do thank you for the invitation to appear before you today. Hopefully today's hearing will help set the stage for the Congress's review of the President's Budget Request for the Department of Defense for Fiscal Year 2008 and the Supplemental Request for Fiscal Year 2007 that will be forwarded to Congress at the beginning of February.

With me today are Vice Chairman of the Joint Chiefs of Staff Admiral Giambastiani, and Under-Secretary of Defense (Comptroller) Ms. Jonas. We will be pleased to provide for you an accounting of war costs to date, and to discuss the approach, the processes, and the categories the Department has used in putting together both the FY 2007 Supplemental Request and FY 2008 Budget Request.

War costs do add another dimension of complexity to the budget, but be assured that this Department will continue to be professional, open, and transparent regarding our processes and detailed costs. We therefore appreciate having this early opportunity to clarify for you the rationale the Department has used in our budget work.

Of course, as I commented to you in my letter dated January 11, 2007, this hearing is being held unusually early, prior to the President's budget submittal to the Congress. Since the President has not yet approved a budget, the Department of Defense is not yet in a position to discuss specific budget numbers.

Ever since the Department made the first supplemental request for the current war effort, shortly after 9/11, for Operation Enduring Freedom, there has been a fundamental debate about methodology. At the end of the day, there's a trade-off involved. The usual budget process is deliberate - it requires looking one to two years out into the future. Conversely, supplemental requests allow much greater fidelity. With the shorter supplemental timeline, the Department has much greater certainty about the changing situation on the ground and our own requirements.

In the Department's view, the supplemental approach has been helpful because it provides clarity. Of course, the Department will follow whatever approach is agreed on by the Congress and OMB.

By any measure, America's defense budget is large – about the size of the entire GDP of some of our close partners, like the Netherlands. So it is important and most appropriate that Congress and the American people seek a better understanding of how that money is spent.

Since September 11th, 2001, when terrorists killed almost 3000 innocent people of 60 different nationalities, including military personnel and civilian employees of the Department of Defense,

America has been a nation at war. Since 2001, the Department of Defense – military and civilian - has been operating on a wartime footing, while simultaneously transforming the Department itself to meet the full array of 21st century national security challenges. In practice, the Department has been carrying out military operations in Afghanistan and Iraq, prosecuting the global war against terrorist extremists around the world, working with partners to respond to major natural disasters in the United States and abroad, transforming the force to better engage in new types of warfare, and modernizing the force to deter and, if necessary, defeat future conventional threats.

The Department's strong transformation agenda draws on the President's National Security Strategy, and is reflected in two key documents published by the Department since 2001, the National Defense Strategy, and the 2006 Quadrennial Defense Review.

The Department's scope and pace of change since 2001, based on this strategic vision, have been extensive.

For example, just considering Combatant Commands, the Department has updated and strengthened the command structure of the force. US Northern Command – charged with protecting and defending the homeland – was created in 2002. The mission and responsibilities of Joint Forces Command, charged with leading the transformation of the force, have been strengthened. Strategic Command was merged with the former Space Command to create a new unified command that provides integrated protection against strategic threats of all kinds. Special Operations Command was assigned the mission to lead the war on terror effort, as well as a new Marine Corps component – MARSOC.

Geographically, the Department is transforming America's global defense posture from one designed to fight the Cold War to one that enables our forces to respond quickly to meet unexpected threats, anywhere in the world.

Practically – to give just a few examples - the Army, while continuing to be heavily engaged in new, irregular forms of warfare in Iraq and Afghanistan, is simultaneously undergoing the most significant modernization in a generation, transforming its garrisoned forces into agile, expeditionary Brigade Combat Teams. And, after decades of development, ballistic missile defense has moved from concept to reality – including fielding an integrated missile defense capability that continues to get stronger and more effective.

At the end of the day, the defense budget is about deterring potential adversaries and, when necessary, winning the Nation's wars; preparing prudently for future challenges; helping bring our friends and allies into the fight; and supporting the brave men and women in uniform who protect and defend America and their families.

Protecting and defending America's people, territory, and way of life is expensive – and more expensive than it used to be, since the array of threats we face is greater than ever before. The Department takes very seriously our fiduciary responsibility to spend every tax dollar wisely. The leadership is especially cognizant that all the dollars the Department spends have been earned by fellow, hard-working citizens.

Because this nation is blessed with such a strong economy, defense expenditures are a relatively small part of the nation's GDP – indeed, today they constitute the smallest proportion of GDP ever spent on defense during war time.

By way of comparison, in 1945, the Department's budget as a percentage of GDP was 34.5%. During the Korean conflict, it was 11.7%; in Vietnam - 8.9%; and in Desert Storm - 4.6%. Even during the Reagan build-up in the 1980's, the defense budget was 6% of GDP. In 2006, defense spending, including base budget and all supplementals, was 3.9% of GDP, and is projected to be about the same in 2007. That is not an unreasonable investment to make, to protect and defend our nation.

By way of process, the base budget funds the Department's mission to "man, organize, train and equip" America's armed forces. The base budget captures and balances the costs of sustaining the force with investing in the capabilities needed to meet future security challenges. So today, for example, the base budget is supporting transformation toward a more expeditionary force, with greater irregular warfare capabilities. And it's supporting the procurement of joint warfighting capabilities. In broad terms, the breakout of expenditures in the base budget, for FY 2007, is as follows: military pay, healthcare and housing 34%; readiness and support 30%; investment in future warfighting capability 36%.

One major challenge the Department faces, looking out into the future, is that the average age of equipment is rising. In FY 2006, the average age of nuclear attack submarines was about 18 years; of the Air Force's tactical fighters - 20 years; of strategic airlift -15 years; of tactical airlift - 26 years; and of tankers – 44 years.

It's important to recognize that the Department is at minimum replacement levels for much of its capital assets. For example, the Department is building one submarine per year, one new aircraft carrier every five years, and one destroyer each year, and it has only one multi-role fighter in development.

Supplemental budgets are financing the ongoing costs of contingency operations and related costs of the global war on terror. Iraq and Afghanistan account for the vast majority of supplemental funding.

In FY 2007, some war costs are being covered by the \$70 billion provided by Congress in the FY 2007 DoD Appropriations Act. War costs for the remainder of FY 2007 will be addressed in a separate request from the Department, to be submitted along with the FY 2008 base budget and the FY 2008 war request. It is vitally important to the Department that the FY 2007 spring supplemental be approved by the Congress in a timely manner. By mid-April, the Department will need to begin reprogramming other funds, with associated disruptions, if the supplemental is not approved.

Despite the difficulties of predicting the costs of the fight against terror, the Department has continued to make every effort to provide Congress with a transparent view of its stewardship of

taxpayer dollars in this most critically important effort – particularly in our regular Cost of War Reports.

In November 2006, the Department delivered to Congress its most recent Cost of War report, with a full accounting of war costs to date. That Report shows that, since September 11, 2001, Congress has appropriated \$452 billion in supplemental funding for the global war on terror. As of the end of November 2006, the Department had obligated \$372 billion - \$276 billion for Operation Iraqi Freedom; \$69 billion for Operation Enduring Freedom; and \$27 billion for Operation Noble Eagle. The Report also includes, as required by Congress, detailed information by Component, appropriation or funding source, budget activity, and type of cost.

Some have suggested that the Department cannot accurately account for the cost of the global war on terror because its financial books cannot be independently audited. While the Department is not undergoing an independent audit of the cost of the global war on terror, the reports are compiled and analyzed by a team of experienced accountants who carefully scrutinize the data, conduct variance analyses to identify and correct errors, and footnote sources.

The results to date have been positive – in its most recent report on DoD war-related costs, the Government Accountability Office did not identify any duplicative or unnecessary war spending. There is, however, always room for improvement. Accordingly, in the cost reports, expenses are now being grouped into more easily understood categories, with an increased level of detail. Department efforts to clarify and further improve the process are ongoing.

The Department's good stewardship of taxpayer dollars requires the soundest possible financial management procedures. While such internal reforms rarely make the headlines, improving the financial management and audit readiness of the Department has been a "main effort" since 2001– with concrete results.

These initiatives are part of a broader effort to reform the defense enterprise itself – to make the Department function as effectively, and thereby as efficiently, as possible. Reforming the enterprise has meant taking a hard look at, and updating, everything from decision-making processes to the full array of business practices used to run the Department.

One major spur toward change is the Department's Financial Improvement and Audit Readiness (FIAR) Plan, which lays out an incremental approach to Department-wide audit readiness. The Plan is designed both to prepare the Department for audit, and to institutionalize the systems that get us there – in order to achieve clean audit opinions now and in the future. The Plan is working.

As of December 2006, the Department had achieved 84% of all the key milestones in the FIAR Plan. As a result, 15% of all DoD assets (\$215 billion) and 49% of its liabilities (\$967 billion), received a "clean" - independently-verified - audit opinion.

By plan, 72% of the Department's assets and 79% of its liabilities will receive "clean" audit opinions by 2010. While that may seem like a long time, the DoD asset base is larger than those

of IBM, Wal-Mart, Ford, and Exxon/Mobil combined. [DoD: over \$1 trillion; Theirs: \$746B. Source: their annual reports.]

In addition, for the first time, the Army Corps of Engineers is undergoing an audit of its 2006 financial statement, and a favorable opinion is expected next month.

To help institutionalize these improved approaches, the Department created, and is implementing, the Enterprise Transition Plan. As Chairman of the Defense Business Systems Modernization Committee, I monitor this crucial piece of our strategy, and I can tell you it is working. As of December 2006, the Department had achieved 77% of the Transition Plan's milestones.

The Department also continues to improve financial operations – for example, the Defense Finance and Accounting Service (DFAS) has dramatically increased productivity and improved service while reducing costs.

I do thank this Committee for the opportunity to engage in this important, clarifying discussion. I thank you for your close cooperation with the Department of Defense in our shared efforts to protect and defend America. And I thank each of you for your support for our brave men and women who wear the cloth of this nation.